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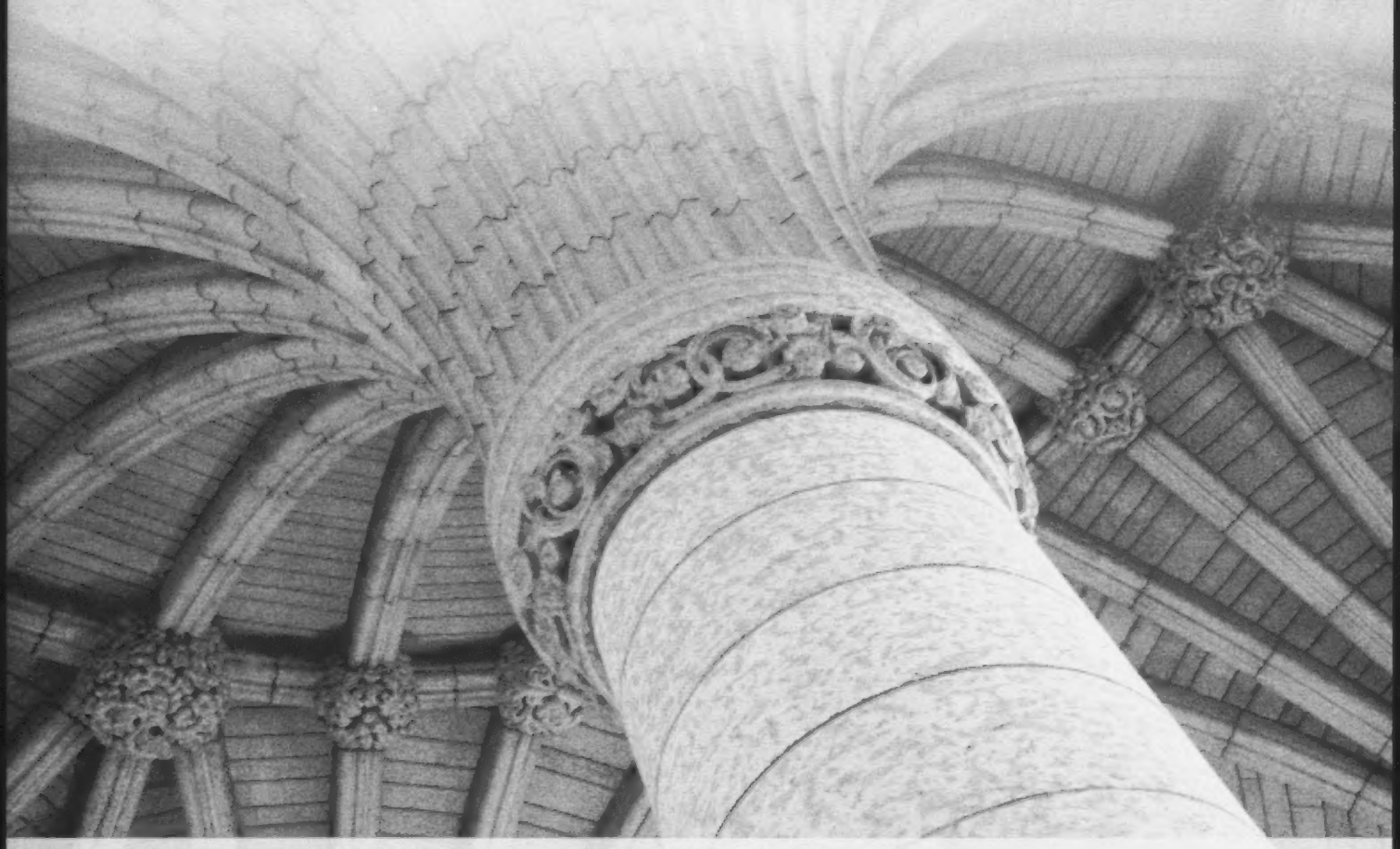
CANADA

E-COMMERCE: CERTAIN TRADE-RELATED PRIORITIES OF CANADA'S FIRMS

Report of the Standing Committee on International Trade

Honorable Mark Eyking, Chair



APRIL 2018
42nd PARLIAMENT, 1st SESSION

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Chair

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NOTICE TO READER

Reports from committee presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON INTERNATIONAL TRADE

has the honour to present its

NINTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied progressive Canadian enterprises and SMEs through electronic commerce and has agreed to report the following:

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LIST OF RECOMMENDATIONS

As a result of their deliberations, committees may make recommendations which they include in their reports for the consideration of the House of Commons or the Government. Recommendations related to this study are listed below.

Recommendation 1

That the Government of Canada ensure the existence of a taxation system that is fair and equitable for all Canadians. The Government should work with other countries in ensuring that online sales, and the profits earned by firms making such sales, are taxed in the country where the products are consumed and where the economic activities that created the income occur, which would be consistent with relevant recommendations made by the Organisation for Economic Co-operation and Development. 21

Recommendation 2

That the Government of Canada contribute to the success of Canada's firms, which operate in a rapidly evolving global economy, by adopting policies designed to ensure that the country's entrepreneurs who engage in e-commerce can operate in an environment that has competitive taxes, minimal red tape, and policies and programs that facilitate trade. 21

Recommendation 3

That the Government of Canada apply sales taxes on tangible and intangible products that are sold in Canada by domestic firms and by foreign sellers, including when such sales occur using an e-commerce platform. 21

Recommendation 4

That the Government of Canada increase Canadians' trust in e-commerce platforms, including through measures that will enhance cybersecurity. As well, the Government should ensure that federal legislation and regulations protect the personal data of Canadians who purchase and sell products online..... 21

Recommendation 5

That the Government of Canada work with provincial/territorial governments to ensure the availability of training and education that would enable Canadians to engage in e-commerce activities. 22

Recommendation 6

That the Government of Canada enhance its efforts designed to equip and encourage Canada's firms, particularly those that are small or medium in size, to make greater use of e-commerce to increase their domestic and international sales. In particular, the Government should direct at least some of its enhanced efforts to helping the country's firms develop the practical skills and knowledge that are needed to sell online..... 22

Recommendation 7

That the Government of Canada increase awareness about federal programs and services, including the Trade Commissioner Service, that can help Canada's small and medium-sized firms that wish to export or import using e-commerce platforms. The Government should achieve this enhanced awareness through promotional activities, such as a federal marketing campaign, and through measures designed to increase the effectiveness of the Trade Commissioner Service's outreach to potential clients, including entrepreneurs who are interested in using e-commerce to trade internationally. 22

Recommendation 8

That the Government of Canada improve Canada's digital infrastructure and ensure that high-speed Internet service is available throughout the country to support Canadians' ability to engage in e-commerce purchases and sales, and to enhance the competitiveness of the country's firms..... 22

Recommendation 9

That the Government of Canada assess whether – and, if so, the extent to which – some foreign sellers have a postal rate advantage over Canada's firms when shipping products to Canadian destinations. If this assessment reveals that Canada's firms are disadvantaged, the Government should determine whether this disadvantage will be mitigated by future increases in the compensation received by Canada Post Corporation for its delivery of products originating in certain countries, or should be addressed by additional measures. 22

Recommendation 10

That the Government of Canada review, with a view to modernizing, federal legislation relating to e-commerce. 23

Recommendation 11

That the Government of Canada support Canadians' use of mobile devices to make online purchases and sales by proposing measures aimed at enhancing competition among providers of mobile telecommunications services in Canada.....23

E-COMMERCE: CERTAIN TRADE-RELATED PRIORITIES OF CANADA'S FIRMS

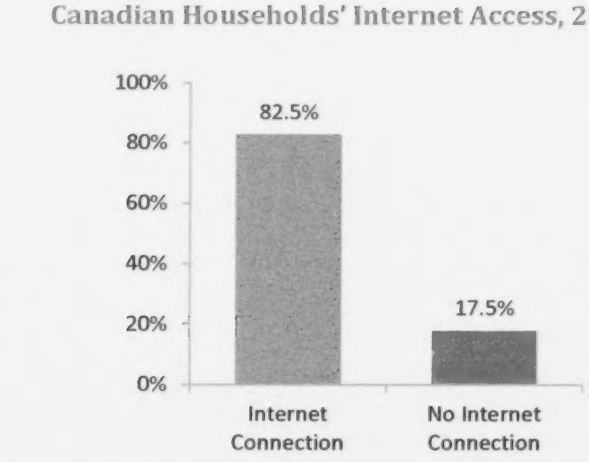
INTRODUCTION

E-commerce is changing the ways in which firms do business, and it can increase their sales and market share while reducing the time and effort required to complete transactions. For Canada's small and medium-sized enterprises (SMEs), which represented 99.7% of the country's employer firms in December 2015,[1] e-commerce platforms – information technology systems that enable Internet-based business transactions – provide access to the trillions of dollars annually that are associated with the global online marketplace.

Canada's SMEs are significant economic contributors. Among other things, they employ most of the country's private-sector workers, and their annual merchandise exports are valued at billions of dollars. If these firms can fully access e-commerce opportunities, they will be well-positioned to continue to make these contributions.

That said, some of Canada's SMEs face e-commerce–related challenges. For example, because consumers are increasingly able to use the Internet to compare prices for the same product and to purchase from sellers located in countries throughout the world, firms – including SMEs – may experience both increased competition and downward pressure on prices. As well, as more sales occur online, firms that do not engage in e-commerce may lose market share to competitors that do. SMEs, which may lack access to the same financial and human resources as large firms, may be particularly vulnerable if they are relatively unable to use new technologies, such as e-commerce platforms, to do business.

1 Industry Canada, *Key Small Business Statistics – June 2016*, 17 November 2016.



Note: Statistics Canada did not appear as a witness during this study.

Source: Statistics Canada, "Table 358-0167," CANSIM (database), accessed on 7 March 2018.

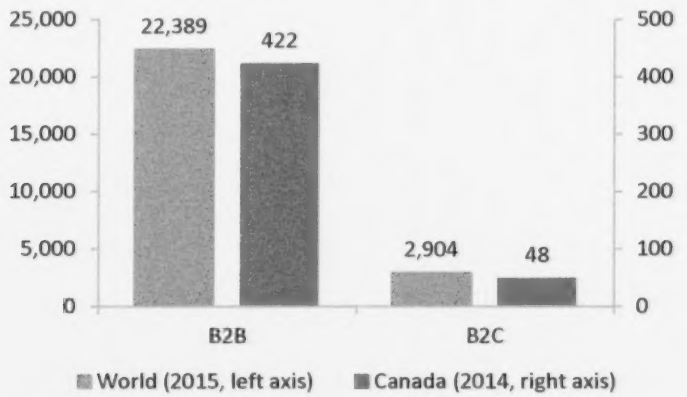
On 11 May 2017, the House of Commons Standing Committee on International Trade adopted a motion to study the opportunities that e-commerce provides to Canada's firms, including its SMEs. During three meetings held between 23 October 2017 and 6 November 2017, the Committee heard from 14 witnesses, including representatives of firms, organized labour and federal Crown corporations, among others.

This report summarizes the witnesses' comments about the ways in which global e-commerce can affect Canada's firms, and identifies their priorities in three areas of federal public policy: taxation, and regulatory and legislative requirements; measures that support firms that make online sales and purchases; and access to digital technologies and digital skills. In addition, it provides the Committee's recommendations to the Government of Canada about the areas addressed in this report.

The Committee's witnesses also spoke about other topics that are less directly linked to e-commerce, such as a perceived need for the Government of Canada to promote the purchase of Canadian goods, and firms' awareness of international markets and export opportunities. The witnesses' views on these indirect topics are not summarized in this report.

GLOBAL E-COMMERCE–RELATED OPPORTUNITIES AND CHALLENGES FOR CANADA'S FIRMS

Business-to-Business and Business-to-Consumer E-Commerce Transactions (US$ billions)



Notes: B2B is "business-to-business" and B2C is "business-to-consumer." The United Nations Conference on Trade and Development did not appear as a witness during this study.

Source: United Nations Conference on Trade and Development, *Information Economy Report 2017: Digitalization, Trade and Development*, 23 October 2017.

Witnesses told the Committee that e-commerce provides Canada's firms with both opportunities and challenges. In particular, they spoke about sales opportunities, and highlighted such challenges as competition, the adoption of digital technologies, and – when compared to foreign competitors – limited online sales.

A. Opportunities

The Business Development Bank of Canada (BDC) projected that Canadian retail-based e-commerce sales will be $56 billion by 2020 because consumers are "living in an increasingly hyperconnected, high-speed world," and commented that the Internet and mobile devices are changing the ways in which consumers search for – and find reviews on – new goods and services, communicate with firms and pay for purchases. Canadian Manufacturers & Exporters noted that the growing trend of consumers buying goods online provides SMEs with access to "billions of consumers around the world."

Export Development Canada (EDC) stated that e-commerce "has brought about one of the most important paradigm shifts in the world of international trade," and that U.S.

and Chinese e-commerce sales have been growing at an average annual rate of approximately 10% and 20%, respectively; together, these countries' e-commerce sales are expected to be nearly $1.6 trillion in 2017. EDC characterized these countries as a "massive untapped market" for Canada's firms that engage – or that wish to engage – in e-commerce.

In describing itself as a "vital part" of Canada's "e-commerce ecosystem," Canada Post Corporation (Canada Post) mentioned that, within five years of its 2011 growth strategy focused on e-commerce, it had increased its parcel revenue by $521 million; this revenue totalled $1.74 billion in 2016. Canada Post also said that it expects further growth in domestic and international e-commerce sales.

Witnesses indicated that e-commerce–related technologies are enabling Canada's small firms to export. For instance, BDC suggested that some firms must use technology to connect to – and engage with – customers. BDC also observed that "any small shop can become a micromultinational" because low-cost e-commerce applications – or apps – allow these firms to sell internationally, and commented that the growth of e-commerce provides an "excellent opportunity" to "access a new world of competition."

Similarly, eBay Canada Limited noted that "getting online and "using the Internet to enable exports" have become easier over time, and do not require "massive upfront" infrastructure and software investments. In addition, eBay Canada Limited remarked that 99% of its Canadian commercial sellers export; the proportion is less than 15% for what it characterized as "traditional SMEs." As well, eBay Canada Limited mentioned that e-commerce helps rural retailers to compete and allows entrepreneurs to succeed without having to locate in urban areas.

B. Challenges

Witnesses identified greater competition as one of e-commerce's challenges for firms. BDC pointed out that e-commerce's "borderless nature" is increasing the speed and intensity of competition, and suggested that consumers are now more informed than at any other time in history. Similarly, Canadian Manufacturers & Exporters indicated that consumers' growing use of e-commerce platforms to make purchases results in greater competition for Canada's SMEs, which must compete with online "retailers based all around the world."

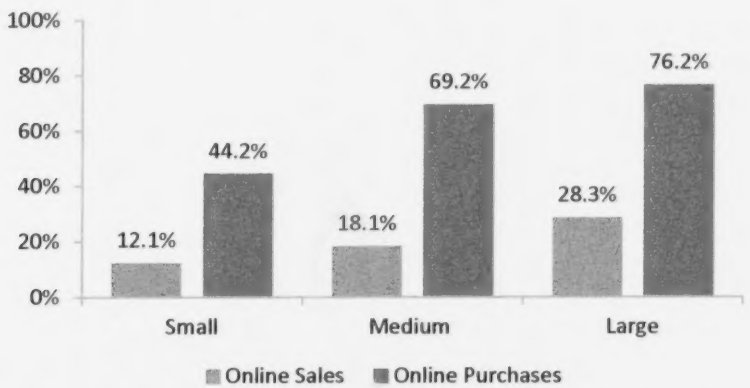
As well, according to witnesses, Canada's firms are less likely than their foreign competitors to make sales online. For example, EDC noted that Canada's share of the global e-commerce market is very limited, and observed that more than 10,000 of Canada's firms have "the potential to immediately sell their products on international

e-commerce platforms;" about 30 of them sell their products on Alibaba. Moreover, Canada Post said that, when compared to their U.S. or U.K. counterparts, Canadian retailers have lower e-commerce sales as a percentage of their total sales.

Regarding the adoption of digital technology, BDC commented that Canada's small firms "have some catching up to do," and mentioned that less than 25% of Canada's firms with fewer than 20 employees use e-commerce platforms. In the view of EDC, selling goods or services on such platforms as Alibaba or JD.com is "very daunting" for "very small firms."

CANADA'S E-COMMERCE TAXATION, AND LEGISLATIVE AND REGULATORY REQUIREMENTS

Canadian Firms Selling and Purchasing Online, By Size, 2013



Notes: The firm size is based on the number of employees. Statistics Canada did not appear as a witness during this study.

Source: Statistics Canada, "Table 358-0196," CANSIM (database), accessed on 12 January 2018.

In making comments to the Committee about the taxation of e-commerce and related activities, witnesses discussed competition between firms in Canada and other countries, made proposals about a range of taxes and similar charges, and spoke about the fiscal implications of technological change.

Regarding legislative and regulatory requirements, witnesses generally focused on privacy and security, intellectual property, intermediary liability and policies that could support production in Canada's cultural sectors, which have been affected by competition from firms that sell media products online, such as Netflix.

A. Taxes and Similar Charges

In discussing competition between firms in Canada and other countries that engage in e-commerce, Canadians for Tax Fairness stated that foreign firms "have been exempted from paying taxes by the Canada Revenue Agency because they have no physical presence in Canada." Consequently, Canadians for Tax Fairness maintained that Canada's firms that sell online are disadvantaged when compared to their foreign counterparts, which are not required to pay the Goods and Services Tax or corporate income taxes in Canada.

With the goal of increasing the competitiveness of Canada's firms, Canadians for Tax Fairness asserted that "[w]e need to level the playing field so that Canadian companies will have a better chance of [both] establishing e-commerce competence" and of moving into the global online marketplace. Similarly, the Canadian Union of Public Employees stressed that the Government of Canada should support Canada's firms that sell online by requiring their foreign competitors that have Canadian sales to "pay their fair share in taxes."

Moreover, the Canadian Union of Public Employees noted that foreign firms are not required to collect sales taxes on digital products and services that they sell in Canada if they are not "carrying on business" here, and emphasized that Canada is one of only "a few major countries in the world" that do not require foreign-based "digital businesses" to collect and remit sales taxes.

As well, the Canadian Union of Public Employees maintained that the non-application of sales taxes on imports of certain digital products and services "creates a very significant bias against Canadian producers" and leads to lost revenue for the country's governments; because of this non-taxation, Canada is "suffering economically and culturally, with a loss of jobs [and] main street businesses, and a weakening of our media."

With a focus on sales taxes, Canadians for Tax Fairness compared the way in which tangible goods and intangible products are taxed; while sales taxes are usually applied on physical goods sold in Canada, other products – such as software, movie rentals, e-books and advertising – are not taxed, creating "unfair competition."

La Maison Simons Inc. noted that most products contain both tangible and intangible content, and provided an example of the potential consequences of taxing only the former: "In a restaurant, 25% is actual, physical food; the other 75% is experience. To imagine that we [could] separate these two, or consider them differently, is just nonsensical" and would affect Canada's tax base. La Maison Simons Inc. also remarked

that firms whose products are not subject to customs duties and sales taxes have an unfair advantage over it because its goods are taxed.

Both La Maison Simons Inc. and Canadians for Tax Fairness made proposals about sales taxes, with La Maison Simons Inc. calling for these taxes to be levied at the point of consumption on tangible and intangible products. Canadians for Tax Fairness suggested that value-added taxes should be paid in the country where a sale occurs, regardless of whether an e-commerce platform is used, and said that – when a certain sales value is exceeded – Canada's governments should apply the Goods and Services Tax and the Harmonized Sales Tax on e-commerce services sold to Canadians; this measure could result in more than $2 billion in annual revenue for the country's governments.

In providing a different perspective, the University of Ottawa's Michael Geist – who appeared as an individual – indicated that the compliance and enforcement costs associated with levying sales taxes on all sellers might result in certain firms avoiding the Canadian marketplace, thereby reducing competition and consumer choice.

Regarding corporate income taxes, Canadians for Tax Fairness believed that the Government of Canada should require all firms that make sales online and that have earnings above a certain threshold to pay corporate income taxes on profits from goods and services sold or rented in Canada; this measure, which would allow Canada's firms to compete with foreign firms on a level playing field, could result in $600 million in annual revenue. Canadians for Tax Fairness also suggested that these taxes should be paid in the country where profits are made, as recommended by the Organisation for Economic Co-operation and Development. In the view of La Maison Simons Inc., corporate income taxes should be based on the location of sales, consumption, employees, citizens and physical assets.

In mentioning that there is a "lack of good media jobs in Canada," the Canadian Freelance Union – Unifor stated that "any attempt to update" Canada's "approach to e-commerce and trade" should prioritize – among other things – "the production of local cultural content," and proposed that the Government of Canada should "maintain and improve" certain "tax and regulatory tools," and "ensure there are no more exceptions given to either foreign or Canadian online media services," such as Netflix. For instance, to support the production of Canadian news and entertainment, the Canadian Freelance Union – Unifor mentioned that a 5% levy applied on monthly Internet bills exceeding $25 could lead to more than $118 million in annual revenue.

With the goal of allowing Canada's SMEs to "thrive in the global economy," eBay Canada Limited proposed that the country's de minimis threshold[2] should be increased because the current $20 threshold negatively affects the ability of Canada's small firms "to access low-value international supply chains" and creates "red tape" when products are returned by foreign buyers. In addition, eBay Canada Limited claimed that "Canada's low de minimis threshold does not support what the Canadian consumer wants: fairness and choice. E-commerce gives rural Canadians or Canadians with physical limitations access to goods that are otherwise hard to find."

In indicating support for raising Canada's de minimis threshold, Startup Canada suggested that such a change would enhance the competitiveness of the country's firms, and said that "anything we can do to open up our borders" and facilitate trade with the United States would "help our small businesses to scale." Canadian Manufacturers & Exporters described the current $20 threshold as "ridiculously low," and characterized a $200 threshold as "reasonable."

The Canadian Union of Public Employees provided a different perspective, and maintained that Canada should resist pressure to raise the threshold from $20 to $200 or $800 during the *North American Free Trade Agreement* (NAFTA) negotiations.

La Maison Simons Inc. stated that Canada's de minimis threshold should be $0 because any other amount would "basically [destroy] the idea of localizing tax collection at the point of consumption." As well, La Maison Simons Inc. asserted that, if the threshold were to be increased rather than lowered to $0, the Government of Canada would reduce the country's "independence to make certain decisions.... If you raise the de minimis [threshold], effectively you're probably removing your freedom to make other choices of public policy, which as a nation we'd probably regret...."

Also, La Maison Simons Inc. claimed that, despite what it described as the "awesome potential" of technological change, "its negative impact will cause enormous social turmoil, even upheaval if we continue to address ... [it] with archaic fiscal legislation created ... 100 years ago." As well, La Maison Simons Inc. remarked that Canada is in "the early stages of a revolution," and stressed a need for "thoughtful action" to prevent technological change from "eroding" the country's tax base and making governments unable to provide adequate essential services or to pursue other policy priorities.

Moreover, according to La Maison Simons Inc., "if we believe in a global trading system, companies and citizens must accept that there's a new global fiscal framework to be put

2 The de minimis threshold is the amount above which goods imported into a country are assessed for duties and taxes.

in place." La Maison Simons Inc. proposed that Canada should "engage with an emerging group of nations, such as France, Germany, and Australia," which are "beginning to reflect on a 21st-century global consensus for fiscal equity."

B. Legislative and Regulatory Requirements

Regarding privacy and security, Mr. Geist said that Canadians' willingness to make purchases online depends on the degree to which they trust that their information "will be used appropriately and ... that online sellers will deliver what is promised." He suggested that "people are more trusting of email e-commerce in Canada than they are in the United States," which he attributed to Canada's "world-class" anti-spam legislation. Similarly, in the view of eBay Canada Limited, "trading with a Canadian company feels more secure than trading with companies from other jurisdictions."

EDC provided a different perspective, noting that the possibility of receiving counterfeit goods is a primary concern for some of Canada's firms. However, EDC mentioned that firms operating e-commerce platforms take issues relating to cybersecurity and the sale of counterfeit goods very seriously, and provided an example of one firm that has a "stringent policy" to address transactions involving counterfeit goods.

In discussing the Government of Canada's protection of privacy and security, Mr. Geist commented that fraudulent spam reduces the potential success of e-commerce. He noted that Canada's anti-spam legislation addresses a number of problems relating to cybersecurity, including fraudulent spam, malware and phishing. He also indicated that, while some business groups state that Canada's legislation is "overbroad," it has reduced spam originating in Canada and spam sent to Canadians' inboxes.

To ensure consumers' trust that their personal information will be protected, Mr. Geist said that it is essential for Canada to have a "tough" anti-spam law. He also highlighted the need to ensure that Canada's privacy legislation "keeps pace with global standards," especially those in European Union countries, and that "security breach disclosure rules" come into effect as soon as possible.[3]

In addition, Mr. Geist drew attention to the inclusion of e-commerce or digital trade chapters in Canada's free trade agreements (FTAs). While acknowledging the potential

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3 According to Innovation, Science and Economic Development Canada, the *Digital Privacy Act* – which received Royal Assent in June 2015 – amended the *Personal Information Protection and Electronic Documents Act* to require private-sector organizations to notify Canadians when their personal information has been lost or stolen and they have been "put at the risk of harm as a result." McCarthy Tétrault LLP has said that, in accordance with a 26 March 2018 Order in Council, the *Digital Privacy Act*'s "breach of security safeguards" provisions will come into force on 1 November 2018.

value of such chapters, he noted that certain provisions could "undermine" Canada's public policy interests, including in relation to privacy and security. In particular, regarding NAFTA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, he suggested that Canada should resist provisions that would limit the ability of the country's federal or provincial governments to adopt "legitimate privacy and security safeguards through data localization requirements." He also expressed concern about FTA provisions that could limit Canadian governments' ability to restrict cross-border data transfers.

According to Canadian Manufacturers & Exporters, Canada's FTAs should be modernized to include provisions that address digital trade and e-commerce; specifically, the digital trade chapter contained in the Trans-Pacific Partnership agreement that was concluded in October 2015 should be included in a modernized NAFTA and future FTAs to provide "stronger trade protections for SMEs and secure flow of data."

Regarding intellectual property laws and their effects on firms in the "digital environment," Mr. Geist claimed that the "fair use" provisions in U.S. copyright law provide that country's firms and creators with a competitive advantage, while Canada's anti-circumvention provisions – or "digital lock rules" – are among the most restrictive in the world and limit innovation unnecessarily.

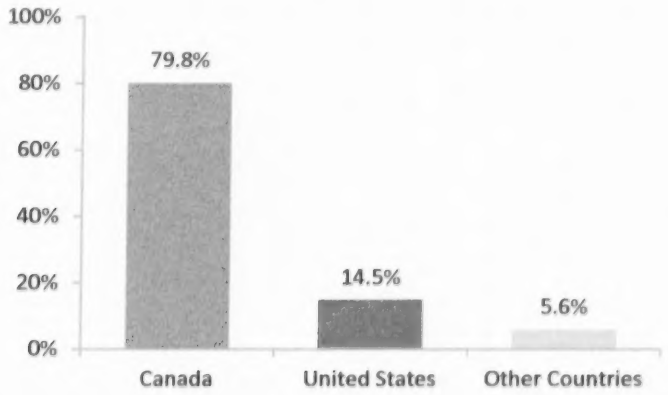
In relation to intermediary liability, which is a website's liability for the online activities of its users, Mr. Geist remarked that such sites as Amazon and eBay "invite feedback comments and user participation," and observed that U.S. legislation protects these types of Internet sites from liability "for the content of third parties." He pointed out that, in contrast, Canadian legislation does not provide Internet sites with this type of protection; the result is relocation to the United States or the removal of content, such as user comments.

In suggesting that the Government of Canada's policies relating to e-commerce and international trade should prioritize and support the production of Canadian cultural content, the Canadian Freelance Union – Unifor noted that the Government can use "a range of regulatory tools" to "help grow, strengthen, and sustain Canadian content in the digital age." For example, the Canadian Freelance Union – Unifor mentioned that streaming video companies – such as Netflix and Google – are "capturing a growing share of audiences and should deliver a commitment to Canadian content comparable to other existing services." Similarly, the Canadian Union of Public Employees emphasized that the Government should maintain the cultural exemptions in its FTAs to help Canadian media producers compete against their foreign counterparts.

As well, the Canadian Freelance Union – Unifor highlighted that changes to Canada's "e-commerce rules" should not reduce "the quality of work life that Canadians enjoy," and should improve Canadians' working conditions and compensation. According to the Canadian Freelance Union – Unifor, in the web-building sector, certain foreign competitors can complete a project for $5; the same work by a domestic producer could cost "a couple of thousand dollars." The Canadian Freelance Union – Unifor believed that "[t]he absence of proper rules" to regulate firms' ability to outsource work internationally would be "detrimental" to freelance workers in Canada.

FEDERAL MEASURES TO SUPPORT THE E-COMMERCE ACTIVITIES OF CANADA'S FIRMS

Canadian Firms' Online Sales Value, By Country of Destination, 2013



Note: Statistics Canada did not appear as a witness during this study.

Source: Statistics Canada, "Table 258-0230," CANSIM (database), accessed 7 March 2018.

A number of the Committee's witnesses identified programs and services that the Government of Canada and certain federal Crown corporations provide to the country's firms that engage in e-commerce, or proposed ways in which they could be made more accessible, including for SMEs. They also discussed new measures that would support Canada's firms that wish to engage in e-commerce.

A. Existing Federal Measures, and Enhancements to Them

In mentioning the services that it provides to Canada's firms, EDC highlighted its collaboration with Global Affairs Canada's Trade Commissioner Service (TCS), which "introduce[s] Canadian suppliers to e-commerce platforms like Amazon, JD.com, or

Alibaba." In addition, EDC commented that Canada's firms that make online sales have financial needs that differ from those of "traditional exporters" or "brick-and-mortar" retailers, leading to both an expansion of EDC's financial products to meet these firms' unique needs and changes to some traditional products, such as accounts receivable insurance.

BDC pointed out that it has been encouraging Canada's "smaller" firms to adopt digital technologies in order to "capitalize on the opportunities that e-commerce presents" and to become more competitive with their foreign counterparts.

In discussing support for Canada's small firms, EDC emphasized its emerging role in facilitating the sale of software delivery and administration over the Internet as a service, and noted that its 75-year focus on "traditional goods and services exports" is changing, as evidenced by its recent partnership with BDC to examine "how we can help in particular the smaller companies to successfully either finance or insure the sale of software as a service."

Canada Post said that it helps to enable e-commerce, has integrated its shipping and delivery services into various e-commerce platforms, conducts and publishes surveys that help businesses to make informed decisions, and works with international postal associations to facilitate cross-border shipping for purchases that involve the use of e-commerce platforms.

With a focus on China, Canada Post stated that the country is a "huge net exporter" of various "small, low-value items that clog up the network and are taking advantage of very dated postal rates." However, Canada Post indicated that it does not determine these rates; instead, they are established within the Universal Postal Union. As well, Canada Post claimed that these rates do not apply to postal services that are "well suited to e-commerce," such as those that provide for delivery confirmation and shipment tracking, and remarked that the compensation that it receives to deliver shipments from China will – in 2018 – increase by about 100%, depending on the product.

Startup Canada drew attention to what it sees as the need for accessible Government of Canada services that help the country's firms to engage in e-commerce, and suggested that "Canada needs to ensure that all enterprises, regardless of size, industry, or sector, are supported with the tools, resources, and policy environment to benefit from electronic international trade."

In particular, Startup Canada spoke about the ability of Canada's firms to use the TCS; while a number of the country's entrepreneurs regard the TCS as the "best kept secret,"

the service is most helpful to firms in the manufacturing, pharmaceutical and resource-based sectors, and to larger firms. According to Startup Canada, the TCS could provide greater support to Canada's "ideas economy [and] innovation economy," and the Government of Canada should "reboot" the TCS to ensure that it serves every entrepreneur, including women.

eBay Canada Limited said that small firms that do business on eBay lack awareness about the Government of Canada's programs and benefits that are available to them, and called for better communication and marketing of these measures.

B. New Measures

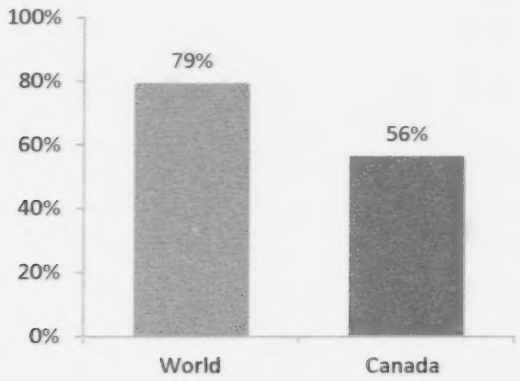
In discussing assistance for Canada's firms that wish to engage in e-commerce and trade internationally, Canadian Manufacturers & Exporters proposed that Government of Canada trade experts should be seconded to business associations for a period of time, with these experts assigned to work with relevant firms for one day per week to help them develop global strategies, including in relation to e-commerce.

eBay Canada Limited suggested that many existing Government of Canada programs "react to an old model of trade, where you need distribution agreements in foreign markets and you need to have contacts there"; programs that respond to "Internet-enabled trade" are needed, and "having a one-stop shop, being able to advertise where the businesses are, which is in social media, and using platforms such as eBay to bridge that gap are all good ideas."

From a different perspective, Mr. Geist stated that "we have to get out of ... the mindset that what we need to do is erect barriers or have government come in with programs to help" Canada's firms compete in the global online marketplace. He said that Canada "need[s] to, in a sense, embrace the commercial opportunities that the Internet has brought and recognize that we do have a lot to offer and we can compete."

ACCESS TO DIGITAL TECHNOLOGIES AND DIGITAL SKILLS

Chief Executive Officers Believing that Digital Skills Are Somewhat or Very Important to their Companies, 2017



Note: PricewaterhouseCoopers LLP did not appear as a witness during this study.

Source: PricewaterhouseCoopers LLP, What's on the minds of Canadian CEOs?, 2017.

In mentioning digital technologies and digital skills, witnesses spoke to the Committee about Canadians' access to the Internet and e-commerce platforms, firms' access to digital infrastructure and their adoption of technology, and the availability of employees with digital skills.

A. Canadians' Access to the Internet and E-Commerce Platforms

In describing universal and affordable Internet access as the "foundation for e-commerce," Mr. Geist claimed that too many Canadians do not have affordable Internet access, and that the prices in Canada for wireless services are among the highest in the developed world. He advocated "public investment to support universal, affordable [Internet] access" and policy measures to enhance competition among mobile telecommunications service providers. As well, he commented that the Canadian Freelance Union – Unifor's proposed levy on Internet bills should not be implemented because it would increase the cost of Internet access.

eBay Canada Limited stated that e-commerce is "levelling the playing field for rural retailers. By leveraging part of the Internet, platforms like eBay have effectively decoupled entrepreneurial success from the need to locate in population centres." In remarking that e-commerce platforms "allow people to make money, support a family,

hire people in their local community, and stay in their local community," and eBay Canada Limited urged investments that would maintain or increase access to such platforms.

According to Canada Post, access to broadband Internet increases consumers' online purchases and enhances the ability of rural residents to buy goods, with resulting opportunities for it to deliver those goods.

B. Firms' Access to Digital Infrastructure and Their Adoption of Technology

In the opinion of Canadian Manufacturers & Exporters, Canada's digital infrastructure is too costly and slow for "modern manufacturing" to operate "in a digital e-commerce world." Canadian Manufacturers and Exporters suggested that Canada needs "better" digital infrastructure.

BDC spoke about a survey that it conducted in which firms identified their concerns relating to e-commerce; rather than connectivity, their top concerns were shipping costs, "hassles of returns" and cybersecurity.

Regarding the adoption of digital technology by Canada's firms, Startup Canada pointed out that 44% of its small business affiliates identify the "high cost" of researching, integrating and maintaining digital technologies as a primary "barrier to technology adoption." Startup Canada also mentioned that, among entrepreneurs in its network, women are 20% less likely than men to adopt new technologies, and that immigrant entrepreneurs are twice as likely as Canadian-born entrepreneurs to integrate digital technologies into their firms.

Canadian Manufacturers & Exporters said that, while investments in advanced technologies are needed for firms to "take advantage of the e-commerce opportunities," the level of Canada's investment in new technologies lags behind that of other countries; accordingly, the Government of Canada should help the country's firms to invest in technologies and software, including through accelerated capital cost allowance rates.

C. Availability of Employees with Digital Skills

Regarding access to employees with digital skills, Startup Canada noted that 73% of Canada's owners of small firms rank "digital skills" among their top three priorities, and commented that 29% of those owners believe that the country's labour force does not have the digital skills that would enable firms to be established and expand.

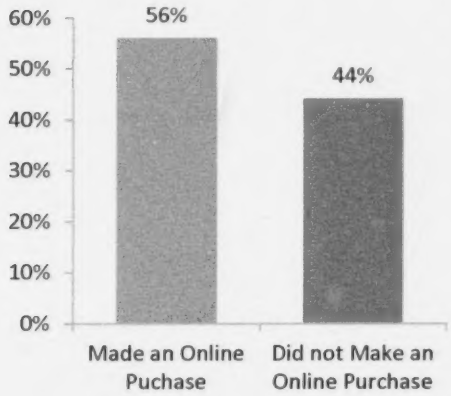
Consequently, Startup Canada emphasized the need to "invest in digital skills and in supporting every entrepreneur."

According to La Maison Simons Inc., the "e-commerce movement requires a whole new skill set," and Quebec is "facing a shortage" of individuals with the needed skills. La Maison Simons Inc. stated its support for "strengthening education," and indicated that it employs two people with a doctorate in applied mathematics, neither of whom works in Canada. In noting a lack of qualified full-time electrical engineers in Quebec to manage and maintain the robotics at one of its facilities, La Maison Simons Inc. highlighted the need for technical training "to make sure we have the skill set to support the infrastructure that will allow us to grow our businesses rapidly."

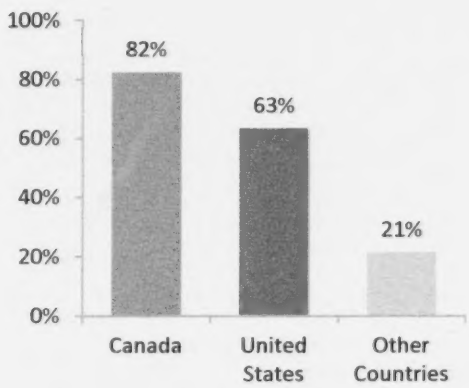
THE COMMITTEE'S CONCLUSION AND RECOMMENDATIONS

E-commerce has become a primary means by which some firms, including certain of Canada's SMEs, sell products and purchase inputs. However, their ability to integrate e-commerce into their business operations, and to compete against other domestic and foreign firms that sell online, partially depends on federal public policy.

Canadian Internet Users, 2012



Canadians Purchasing Online, by Seller's Country, 2012



Note: Statistics Canada did not appear as a witness during this study.

Source: Statistics Canada, Individual Internet use and e-commerce, 2012, 28 October 2013.

The Committee hopes that policymakers interested in enhancing the ability of Canada's firms – especially its SMEs – to engage in e-commerce and compete with their foreign counterparts will consider the comments made by witnesses during this study, and

during such other studies as trade among Canada, the United States and Mexico. Doing so will help these firms to contribute to Canada's economy and the development of the country's international trade relations.

E-Commerce creates the potential for even the smallest local firm to sell globally and, in so doing, creates an environment in which the benefits of trade can be shared by all Canadian firms, and not accrue to just large multinational firms.

Consequently, the Committee recommends:

Recommendation 1

That the Government of Canada ensure the existence of a taxation system that is fair and equitable for all Canadians. The Government should work with other countries in ensuring that online sales, and the profits earned by firms making such sales, are taxed in the country where the products are consumed and where the economic activities that created the income occur, which would be consistent with relevant recommendations made by the Organisation for Economic Co-operation and Development.

Recommendation 2

That the Government of Canada contribute to the success of Canada's firms, which operate in a rapidly evolving global economy, by adopting policies designed to ensure that the country's entrepreneurs who engage in e-commerce can operate in an environment that has competitive taxes, minimal red tape, and policies and programs that facilitate trade.

Recommendation 3

That the Government of Canada apply sales taxes on tangible and intangible products that are sold in Canada by domestic firms and by foreign sellers, including when such sales occur using an e-commerce platform.

Recommendation 4

That the Government of Canada increase Canadians' trust in e-commerce platforms, including through measures that will enhance cybersecurity. As well, the Government should ensure that federal legislation and regulations protect the personal data of Canadians who purchase and sell products online.

Recommendation 5

That the Government of Canada work with provincial/territorial governments to ensure the availability of training and education that would enable Canadians to engage in e-commerce activities.

Recommendation 6

That the Government of Canada enhance its efforts designed to equip and encourage Canada's firms, particularly those that are small or medium in size, to make greater use of e-commerce to increase their domestic and international sales. In particular, the Government should direct at least some of its enhanced efforts to helping the country's firms develop the practical skills and knowledge that are needed to sell online.

Recommendation 7

That the Government of Canada increase awareness about federal programs and services, including the Trade Commissioner Service, that can help Canada's small and medium-sized firms that wish to export or import using e-commerce platforms. The Government should achieve this enhanced awareness through promotional activities, such as a federal marketing campaign, and through measures designed to increase the effectiveness of the Trade Commissioner Service's outreach to potential clients, including entrepreneurs who are interested in using e-commerce to trade internationally.

Recommendation 8

That the Government of Canada improve Canada's digital infrastructure and ensure that high-speed Internet service is available throughout the country to support Canadians' ability to engage in e-commerce purchases and sales, and to enhance the competitiveness of the country's firms.

Recommendation 9

That the Government of Canada assess whether – and, if so, the extent to which – some foreign sellers have a postal rate advantage over Canada's firms when shipping products to Canadian destinations. If this assessment reveals that Canada's firms are disadvantaged, the Government should determine whether this disadvantage will be mitigated by future increases in the compensation received by Canada Post Corporation for its delivery of products originating in certain countries, or should be addressed by additional measures.

Recommendation 10

That the Government of Canada review, with a view to modernizing, federal legislation relating to e-commerce.

Recommendation 11

That the Government of Canada support Canadians' use of mobile devices to make online purchases and sales by proposing measures aimed at enhancing competition among providers of mobile telecommunications services in Canada.

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Canadian Freelance Union-Unifor	2017/10/23	82
Ethan Clarke, Vice-President		
Canadian Manufacturers & Exporters		
Michael Holden, Chief Economist		
Mathew Wilson, Senior Vice-President		
Canadian Union of Public Employees		
Nathalie Blais, Research Representative		
Toby Sanger, Senior Economist		
Startup Canada		
Victoria Lennox, Co-Founder and Chief Executive Officer		
As an individual	2017/10/25	83
Michael Geist, Canada Research Chair in Internet and E-commerce Law Faculty of Law, University of Ottawa		
EBay Canada Limited		
Andrea Stairs, Managing Director		
La Maison Simons Inc.		
Peter Simons, Chief Executive Officer		
Business Development Bank of Canada	2017/11/06	87
Shannon Glenn, Assistant Vice-President Government Relations		
Canada Post Corporation		
Rod Hart, Vice-President Parcels		
Dennis Jarvis, General Manager International Product Management		
Canadians for Tax Fairness		
Dennis Howlett, Executive Director		

Organizations and Individuals	Date	Meeting
Export Development Canada		
Todd Winterhalt, Vice-President Global Trade		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 82, 83, 87, 101, 102 and 103) is tabled.

Respectfully submitted,

Hon. Mark Eyking, PC, MP
Chair

SUPPLEMENTARY REPORT
BY THE CONSERVATIVE PARTY OF CANADA

The Conservative Party would like to thank witnesses who took the time to participate in this study. Electronic commerce represents a promising opportunity for Canadians, and the Conservatives agree with the majority of recommendations made in this report.

Witnesses recognized the potential benefits offered by the development of e-commerce, and Conservatives support recommendations which increase Internet access, provide tools for Canadians to better use e-commerce, and promote government programs that would enable smaller businesses to export products without being hindered by the complexities of international trade.

Regarding recommendations on taxation, the Conservative Party is strongly supportive of Recommendation #2. Ensuring a competitive low-tax environment for Canadian businesses will be vital to smaller businesses successfully using e-commerce.

We believe that Canada should aim to maintain a low-tax environment for consumers as well. The Conservative Party remains opposed to making Canadians pay unnecessary taxes on intangible products. A new tax on Canadians who use online video streaming services like Netflix and YouTube would not benefit Canadian small businesses – it would only create additional costs to Canadian consumers.

SUPPLEMENTARY OPINION
NEW DEMOCRATIC PARTY OF CANADA

INTRODUCTION

The NDP thanks the committee members, staff, analysts, and the witnesses who participated in this study of "Progressive Canadian Enterprises and SMEs Through Electronic Commerce".

The NDP recognizes that the world of business changes rapidly and is becoming more reliant upon internet sales, social media, website advertising and the digital world. The NDP also recognizes that this expanding platform can greatly impact the success of Canada's small and medium-sized enterprises (SMEs), and we encourage the federal government's recognition of the help they must provide these SMEs to navigate a quickly growing and changing business environment.

These supports can come in the form of training and educational programs offered through various institutions within federal departments, but must also come in the establishment and maintenance of fast, reliable, secure and affordable digital infrastructure, regardless of whether you are based in an urban centre or a rural area.

In addition, witnesses' emphasized their concern with the government's ability and/or willingness to safeguard the privacy and security of Canadians' personal and business information.

The NDP supports fair and progressive trade and taxation practices, which has become a key factor in e-commerce over the last decade. We certainly heard from many witnesses during this study whose concerns were not covered completely by the committee's main report, especially those regarding fair taxation practices.

New Democrats understand the importance of e-commerce for the future of business in Canada and we believe the federal government must look to the future and help all businesses prepare for an ever-changing technologically-driven world.

TRAINING AND EDUCATION

As the world of e-commerce and technologies is constantly changing and always improving, the NDP recognizes that this can be daunting for some business entrepreneurs who work tirelessly to ensure their businesses are successful and who want to compete in larger markets.

This educational opportunity can occur on a variety of levels: whether through the help of a business website, a presence on social media, digital advertising or internet sales. Canadian entrepreneurs want to provide more options to their customers and access the global marketplace. The NDP believes that the Government of Canada has a responsibility to provide

Canadian SMEs with the necessary supports to ensure their success. This includes training or the provision of educational opportunities to those entrepreneurs who may not have the skills or experience to create a webpage or setup a potentially complex e-commerce presence.

The committee specifically heard form Startup Canada who requested that through the Trade Commissioners and Export Development Canada, the Government of Canada create streamlined, easy-to-access programs for these entrepreneurs to learn how they can quickly and easily take advantage of the digital marketplace.

The NDP believes that the government must increase awareness about its already existing programs and services and enhance them so they can best help Canadian SMEs who wish to engage in e-commerce activities. This enhanced awareness should occur through an effectively communicated federal marketing campaign.

DIGITAL INFRASTRUCTURE

The NDP heard from witnesses that many communities, especially those more rural and remote, have difficulty accessing fast, reliable, secure and affordable internet. Often, despite companies purchasing high-speed or broadband internet services, those in smaller, rural, northern or indigenous communities are not provided the same level of internet service as other more urban-based companies. This can have a detrimental impact on a business' ability to provide services to their customers and grow their clientele.

The Canadian Manufacturers and Exporters stated that, "Canada needs to have better digital infrastructure. It is often too expensive and not up to necessary speeds for modern manufacturing to operate in a digital e-commerce world".

The NDP believes that without appropriate connectivity and specific federal assistance, the benefit of the internet and a digital economy are muted in places where it could be of must use to level the geographic playing field. Those businesses in poorly serviced areas will suffer an inability to grow, both economically and physically. Communities in rural and remote regions deserve reliable, high speed service that can support this growth and it is the responsibility of the federal government to plan for this.

PRIVACY AND SECURITY

The committee heard from witnesses that Canadians do not have trust or confidence that their personal information and sales are sufficiently protected and that their information is being used appropriately. In light of the recent investigations into Facebook and Cambridge Analytics, this fear is completely justified. In order for the government to better facilitate e-commerce in Canada, witnesses told the committee that they must ensure fraudulent emails scams and anti-spam legislation is tough and up-to-date. According to Dr. Michael Geist, Canada Research Chair in Internet and E-Commerce Law at the University of Ottawa, the government must ensure that

Canada's privacy legislation keeps pace with global standards. Dr. Geist also addressed issues around restrictions on data localization or data storage and emphasized the dangers of foreign governments' push within trade deals and negotiations to lift restrictions on data storage. He said, "The Canadian government should resist those efforts within NAFTA, or within the restarted TPP 11, to limit the ability of federal or provincial governments to establish legitimate privacy and security safeguards through data localization requirements. Limitations on data transfer restrictions, which mandate the free flow of information on networks across borders, can raise similar concerns. The U.S. has been seeking a ban on data transfer restrictions, and I think we ought to ensure that our privacy and security rules aren't superceded by trade agreements such as NAFTA or the TPP 11."

The NDP agrees that data storage changes must not prevent governments from requiring that data be stored on local Canadian servers and that protection of Canadians' information must be of high concern to the government.

TAX FAIRNESS

The NDP believes that Canadians deserve comprehensive, progressive tax fairness. We also believe that taxes are investments into building a fairer society for everyone. This inequality in taxes was addressed by many witnesses at the committee. Several directed their comments at large foreign companies such as Netflix, Amazon, Google, Facebook, Uber and AirBnB, who directly profit from online purchases and advertising, but who don't pay taxes in Canada. Currently, over $20 billion of annual revenue is lost to tax havens and loopholes and the NDP feel this creates unfair competition against Canadian businesses, workers and creators who must pay sales and corporate income taxes.

The Canadians or Tax Fairness told the committee that, "failure to update our tax policy creates unfair competition; causes significant job losses in the journalism, media, and cultural sectors; threatens the vitality of Canadian culture; and squanders the opportunity to raise several hundred million dollars in tax revenue for both federal and provincial governments."

In the media industry specifically, foreign producers are not required to collect sales tax on digital products or services imported into Canada, even though they make a profit in Canada.

The Canadian Union of Public Employees (CUPE) voiced concerns about this and stated, "this creates a very significant bias against Canadian producers. Not only are our governments losing out on significant revenues, but we're suffering economically and culturally, with a loss of jobs, main street businesses, and a weakening of our media."

The Canadian Freelance Union – UNIFOR, also came before the committee to represent the concerns of their 310,000 members; those who work on the front lines of the digital field as journalists and media workers. This witness emphasized a problem with Canada's free trade agenda, as focused on capital and business interests instead of workers and human rights. The

Canadian Freelance Union – UNIFOR expressed the need for companies like Netflix and Google, who are capturing a growing share of Canadian audiences' subscriptions, to also be regulated by the government to commit funds to the creation of Canadian content, like their competitors.

The Canadian Freelance Union – UNIFOR also addressed the need for special attention to be paid to the production of local cultural content. They said, "Canada and the provinces must be free to regulate to ensure there is space for Canadian artists, creative professionals, and cultural producers. There should be extra care given to workers' rights and working conditions even for workers in freelance positions. Fair compensation, a safe work environment, paid time off, sick leave, overtime, secure retirement, these are some of the things that many Canadian workers enjoy as a consequence of generations of workplace struggle."

CUPE voiced concerns for their members who are employed in the media industry and noted that, "the culture and communications industry is unanimous on the need for legislative change so that Canadian companies can compete on a level playing field in a global marketplace made possible by the Internet.

The Chief Executive Officer of La Maison Simons Inc., Peter Simons **stated that, "**Access to open global trade networks is not a right. It is a privilege that has been built by hard work over the past decades. It comes with responsibilities...We must understand that it is citizens who require services, and thus taxation must be accrued at the points of consumption... Canada must participate in a movement to redefine corporate taxation based on where actual sales, consumption, employees, citizens, and physical assets are located."

Mr. Simons stated, "For my part, all the products I sell are fully taxed and subject to customs duties. That is not true for other companies, however, so there is an imbalance or unfairness in terms of competition. I am not asking for my business to be subsidized or protected, but simply for things be fair." This succinctly points to many of the concerns the NDP has with tax fairness.

NDP RECOMMENDATIONS

1. That the Government of Canada provides training and educational supports and programs that would assist Canadian entrepreneurs to engage in e-commerce activities.

2. That the Government of Canada improves Canada's digital infrastructure to support urban and rural Canadians' ability to make online purchases, conduct business and overall increase the competitiveness of Canada's firms.

3. That the Government of Canada applies corporate income taxes on the e-commerce-related profits that are earned in Canada by the country's firms and foreign sellers, provided that the income exceeds a specific threshold.

4. That the Government of Canada ensures that any provisions regarding data localization preserve Canada's ability to make substantive domestic law protecting Canadians' personal data and privacy rights.

5. That the Government of Canada retains Canada's strong net neutrality regime, and reject all attempts to weaken net neutrality in Canada or "harmonize" with the United States on this policy.

6. That the Government of Canada ensure that Canada's taxation and regulatory policies support the production of Canadian news and entertainment.

7. That the Government of Canada commits to a de minimus threshold that does not harm Canadian e-commerce activities.

8. That the Government of Canada eliminates tax loopholes and prevent the loss of revenue resulting from the use of tax havens in order to ensure that adequate funds are available for investments in sufficient and modern digital infrastructure in Canada and in the education and skills-training of Canada's workforce.

9. That the Government of Canada eliminates the deductibility of advertising expenses on foreign internet-delivered media.

10. That the Government of Canada create opportunities provided by the negotiation of free trade agreements to establish circumstances that would encourage strong working conditions and competitive compensation for workers in Canada's web-building sector.